

**SOUTH DAKOTA REVOLVING ECONOMIC DEVELOPMENT
AND INITIATIVE FUND**

AUDIT REPORT

Fiscal Year Ended June 30, 2009

**SOUTH DAKOTA REVOLVING ECONOMIC DEVELOPMENT
AND INITIATIVE FUND
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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Honorable M. Michael Rounds
Governor of South Dakota

and

South Dakota Board of Economic Development

We have audited the financial statements of the South Dakota Revolving Economic Development and Initiative Fund as of and for the fiscal year ended June 30, 2009 and have issued our report thereon dated October 31, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the South Dakota Revolving Economic Development and Initiative Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the South Dakota Revolving Economic Development and Initiative Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the South Dakota Revolving Economic Development and Initiative Fund's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies

in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the South Dakota Revolving Economic Development and Initiative Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the South Dakota Revolving Economic Development and Initiative Fund in a separate letter dated October 31, 2009.

This report is intended solely for the information and use of management and members of the South Dakota Legislature and is not intended to be and should not be used by anyone other than those specified. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Martin L. Guindon", with a stylized flourish at the end.

Martin L. Guindon, CPA
Auditor General

October 31, 2009



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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

The Honorable M. Michael Rounds
Governor of South Dakota

and

South Dakota Board of Economic Development

We have audited the accompanying financial statements of the South Dakota Revolving Economic Development and Initiative Fund, as of and for the fiscal year ended June 30, 2009, as listed in the Table of Contents. These financial statements are the responsibility of the South Dakota Board of Economic Development's management. Our responsibility is to express an opinion on these financial statements based on our audit.

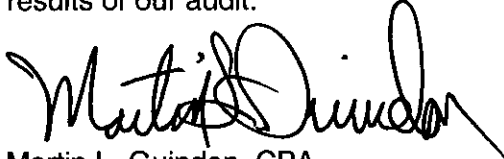
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements of the South Dakota Revolving Economic Development and Initiative Fund are intended to present the financial position, and changes in financial position and cash flows, of the business type activities of the State that is attributable to the transactions of the South Dakota Revolving Economic Development and Initiative Fund. They do not purport to, and do not, present fairly the financial position of the State of South Dakota as of June 30, 2009, and the changes in its financial position and its cash flows, where applicable, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Dakota Revolving Economic Development and Initiative Fund as of June 30, 2009, and the respective changes in financial position and cash flows thereof for

the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2009 on our consideration of the South Dakota Revolving Economic Development and Initiative Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in black ink, appearing to read "Martin L. Guindon". The signature is fluid and cursive, with a large, stylized "M" and "G".

Martin L. Guindon, CPA
Auditor General

October 31, 2009

SOUTH DAKOTA REVOLVING ECONOMIC DEVELOPMENT
AND INITIATIVE FUND
STATEMENT OF NET ASSETS
June 30, 2009

ASSETS:

Current Assets:

Cash and Cash Equivalents (Note 2C)	\$ 34,734,416
Accounts Receivable - Bankwest	16,734
Loan Interest Receivable	152,393
Investment Income Receivable	305,803
Loans Receivable (Net) (Note 2F)	13,325,171
Motor Fuel Tax Refunds Receivable	6,221
Total Current Assets	<u>48,540,738</u>

Noncurrent Assets:

Equipment (Net) (Note 2E)	25,529
Loans Receivable (Net) (Note 2F)	39,541,527
Total Noncurrent Assets	<u>39,567,056</u>

TOTAL ASSETS	<u>88,107,794</u>
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LIABILITIES:

Current Liabilities:

Accounts Payable	18,689
Wages Payable	25,275
Accrued Leave Liability (Note 5)	23,807
Due to Other Funds	5,772
Total Current Liabilities	<u>73,543</u>

Noncurrent Portion of Accrued Leave Liability (Note 5)	<u>21,197</u>
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TOTAL LIABILITIES	<u>94,740</u>
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NET ASSETS:

Invested in Capital Assets	25,529
Unrestricted	<u>87,987,525</u>

TOTAL NET ASSETS	<u><u>\$ 88,013,054</u></u>
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The notes to the financial statements are an integral part of this statement.

SOUTH DAKOTA REVOLVING ECONOMIC DEVELOPMENT
AND INITIATIVE FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
For the Fiscal Year Ended June 30, 2009

Operating Revenue:	
Interest Income on Loans	\$ 1,409,816
Other Income	152,505
Total Operating Revenue	<u>1,562,321</u>
Operating Expenses:	
Personal Services and Benefits	394,964
Travel	21,584
Contractual Services	240,971
Supplies and Materials	6,015
Grants and Subsidies	197,097
Depreciation Expense (Note 2E)	2,020
Total Operating Expenses	<u>862,651</u>
Operating Income (Loss)	699,670
Nonoperating Revenue (Expense):	
Investment Income	2,024,847
Other Income	164,512
Other Expense	(13,262)
Total Nonoperating Revenue (Expense)	<u>2,176,097</u>
Change in Net Assets	2,875,767
Beginning Net Assets	<u>85,137,287</u>
End of Year Net Assets	<u>\$ 88,013,054</u>

The notes to the financial statements are an integral part of this statement.

SOUTH DAKOTA REVOLVING ECONOMIC DEVELOPMENT
AND INITIATIVE FUND
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2009

Cash Flows From Operating Activities:		
Receipts for Loan Repayments	\$ 7,005,998	
Payments for Loans Originated	(15,505,702)	
Other Receipts - Motor Fuel Taxes	163,621	
Receipts from Customers and Users	152,505	
Payments for Employee Services	(317,541)	
Payments for Interfund Services Used	(58,483)	
Payments to Suppliers and for Benefits and Claims	(477,929)	
Net Cash Provided (Used) by Operating Activities		(9,037,531)
Cash Flows From Capital and Related Financing Activities:		
Purchases of Capital Assets	(13,199)	
Net Cash Provided (Used) by Capital and Related Financing Activities:		(13,199)
Cash Flows From Investing Activities:		
Pooled Investment Income	2,160,006	
Security Lending Rebate Fees	(13,262)	
Net Cash Provided by Investing Activities		2,146,744
Net Increase (Decrease) in Cash and Cash Equivalents During the Fiscal Year		(6,903,986)
Cash and Cash Equivalents at Beginning of Year		41,638,402
Cash and Cash Equivalents at End of Year		<u>\$ 34,734,416</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)		\$ 699,670
Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation/Amortization Expense	2,020	
Miscellaneous Nonoperating Income	164,512	
Motor Fuel Tax Refunds Receivable	(893)	
Decrease/(Increase) in Assets:		
Loans Receivable	(9,908,111)	
Loan Interest Receivable	(55,687)	
Accounts Receivable - Bankwest	53,948	
Increase/(Decrease) in Liabilities:		
Accounts Payable	7,844	
Wages Payable	670	
Accrued Leave Liability	(2,247)	
Due to Other Funds	743	
Total Adjustments		(9,737,201)
Net Cash Provided (Used) by Operating Activities		<u>\$ (9,037,531)</u>

The notes to the financial statements are an integral part of this statement.

**SOUTH DAKOTA REVOLVING ECONOMIC DEVELOPMENT
AND INITIATIVE FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2009**

1. AUTHORIZING LEGISLATION

The South Dakota Revolving Economic Development and Initiative Fund (REDI Fund) was created in 1987 by an act of the South Dakota Legislature. The REDI Fund was established for the purpose of making loans for economic development. The REDI Fund is a fund of the State of South Dakota and is administered by the Governor's Office of Economic Development (GOED).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Fund Accounting

The REDI Fund is accounted for as an enterprise fund. Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises. The REDI Fund is a part of the State of South Dakota and, as such, the accompanying financial statements are included in the Comprehensive Annual Financial Report of the State of South Dakota.

B. Basis of Accounting

The REDI Fund follows the accrual basis of accounting. This method of accounting recognizes the financial effect of transactions, events, and interfund activities when they occur, regardless of the timing of related cash flows. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition, such as investment earnings are reported as nonoperating. The REDI Fund follows all Governmental Accounting Standards Board (GASB) pronouncements and those Financial Accounting Standards Boards Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

C. Cash and Investments

Cash includes cash on hand and a participating interest in the State's internal investment pool held by the State Treasurer and is used for the purposes of reporting cash flows. The amount held in the State's internal investment pool is reported at fair value.

Management of the State's internal investment pool is the statutory responsibility of the South Dakota Investment Council (SDIC). The investment policy and required risk disclosures for the State's internal investment pool are presented in the SDIC's audit report which can be obtained by contacting the Department of Legislative Audit, 427 South Chapelle, c/o 500 East Capitol, Pierre, South Dakota 57501.

D. Value Added Agriculture Subfund Projects

The Board of Economic Development (BED) approves projects funded from the Value Added Agriculture Subfund in the form of loans, grants or loans/grants. For financial reporting purposes, the BED estimates that 10% of the projects financed as loans/grants during the year will be repaid in the form of loans and records this estimate as loans receivable in the financial statements with the balance of the financing reported as a grant expense. Upon project completion, the BED evaluates the feasibility of the project and determines if the funds provided are considered a grant or will be repaid in the form of a loan.

E. Capital Assets

Assets are capitalized based on policies established by the South Dakota Bureau of Finance and Management. Capital assets are capitalized at cost or estimated historical cost, if the original cost is unavailable. Equipment is capitalized when the cost of individual items is \$5,000 or more. Depreciation on capital assets is computed using the straight line method over the estimated useful lives of the assets, which is 3 to 10 years for all assets. When assets are disposed of, the costs and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in the results from operations in the period of disposal.

A summary of changes in capital assets for the year ended June 30, 2009 is as follows:

	<u>Balance 07/01/08</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 06/30/09</u>
Equipment	\$14,400	\$13,199	\$ -0-	\$27,599
Accumulated Depreciation	50	2,020	-0-	2,070
Capital Assets, Net	<u>\$14,350</u>	<u>\$11,179</u>	<u>\$ -0-</u>	<u>\$25,529</u>

F. Loans Receivable

Loans receivable at June 30, 2009, is shown net of the allowance for doubtful loans of \$996,066.

3. VALUE ADDED AGRICULTURE SUBFUND ACTIVITY

During the 1999 legislative session the Value Added Agriculture Subfund was created within the REDI Fund. The legislature designated three million dollars from the REDI Fund for the purpose of making grants or loans for value added agricultural products. It also designated three cents per gallon of each motor fuel tax refund on any purchases of motor fuel after July 1, 1999, for the purpose of this fund.

The following is a breakdown of the activity in the subfund for FY09 and its corresponding net assets at June 30, 2009:

	Value Added Agriculture SubFund
Beginning Net Assets	\$ 2,921,315
Grant Expense	(197,097)
Motor Fuel Tax Refund Income	164,514
Investment Income	126,883
Ending Net Assets	<u>\$ 3,015,615</u>

4. COMMITMENTS

At June 30, 2009, the REDI Fund has the following commitments:

Value-Added Agriculture projects approved by the South Dakota Board of Economic Development but not disbursed at June 30, 2009 -----	\$ 467,198
REDI Fund loans approved by the South Dakota Board of Economic Development but not disbursed at June 30, 2009 -----	\$ 4,685,056
South Dakota Economic Development Finance Authority for the Agriculture Processing and Export Loan Program (RECD Intermediary Relending Program) -----	\$ 325,000

5. ACCRUED LEAVE LIABILITY

Annual leave is earned by all employees. Upon termination, employees are eligible to receive compensation for their accrued annual leave balances. Employees who have been continuously employed by the State of South Dakota for at least seven years prior to the date of their retirement, voluntary resignation or death will receive payment for one-fourth of their accumulated sick leave balance, such payment not to exceed the sum of twelve weeks of employee's annual compensation. The total leave liability of \$45,005 at June 30, 2009, is shown as short and long-term liabilities on the Statement of Net Assets.

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Accrued Leave Liability	\$ 47,253	\$ 31,041	\$ 33,290	\$ 45,004	\$ 23,807

6. RETIREMENT PLAN

The GOED participates in the South Dakota Retirement System (SDRS), a cost-sharing, multiple-employer defined benefit pension plan established to provide retirement, disability, and survivor benefits for employees of the State and its political subdivisions. Authority for establishing, administering and amending plan provisions is found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements, footnote disclosures, and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Employees are required by state statute to contribute 6 percent of their salary to the plan. State statute also requires the employer to contribute an amount equal to the employee's contribution. The right to receive retirement benefits vests after three years of credited service. The GOED's contributions to the SDRS for the fiscal years ended June 30, 2009, 2008, and 2007 were \$19,762, \$19,583, and \$16,915 respectively, equal to the required contributions each year.

7. PUBLIC ENTITY POOL FOR LIABILITY

The GOED is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The GOED is uninsured for property loss. The GOED participates in the various programs administered by the State of South Dakota. These risk management programs are funded through assessments charged to participating entities. The risk management programs include; 1) coverage for risks associated with automobile liability and general tort liability (including public officials' errors and omissions liability, medical malpractice liability, law enforcement liability, and products liability) through the State's Public Entity Pool for Liability Fund, 2) coverage of employee medical claims through the State's health insurance program, 3) coverage for unemployment benefits through the State's Unemployment Insurance Fund, and, 4) coverage for workers' compensation benefits through the State's Workers' Compensation Fund. Financial information relative to the self-insurance funds administered by the State is presented in the State of South Dakota Comprehensive Annual Financial Report.

DEPARTMENT OF TOURISM AND STATE DEVELOPMENT

PRIOR AUDIT FINDING

State Audit Finding:

Finding No. 04001200801:

Controls were not adequate to ensure the accuracy of amounts reported in the financial statements including the identification and correction of reporting errors and omissions.

Auditee's Corrective Action Plan:

Recommendation was implemented.